



# *DISTRESSED*

# *MUNICIPAL DEBT*

## NEWSLETTER

OCTOBER 2016

### DEBT RELIEF THROUGH REDEMPTIONS

As is becoming evident, the number of bond defaults and distressed issues that are being called or defeased through new bond issuance. We see defaults that have been outstanding since 2008, especially in the community development area, suddenly being retired in total and not just the matured coupons. No doubt this is being facilitated by the huge demand for municipal bonds, especially those paying yields of 5% or more. This is helpful to these distressed issuers since it means their debt service needs can be lowered and maturities pushed out into a now more knowable time period. This situation is distressing to bondholders who valued the high coupons many of these bonds offered and where willing to ride out the distress. Such relief represents an efficient way of resetting bond issues which acquire a heavy legal burden on top of the misfortune or of being the victims of poorly structured deals.

### NEW DEFAULTS

#### SPRINGFIELD CENTER CITY DEVELOP JORDAN VLY PARK BASEBALL STADIUM

This \$6.1 million taxable bond was issued in 2002 to build a stadium in Kansas City Missouri for a local baseball team. The bonds were declared in default on August 2016 when the stadium leaseholder's estate filed for bankruptcy. The leaseholder, John Q Hammons is deceased, but his estate is the subject of a lawsuit which appears to be the reason for the bankruptcy filing. The bonds are current, but future payments could be halted by the filing, which the trustee considers an act of default. The city of Springfield is shown as an obligor on the bonds. Note that a similar situation exists with a bond we reported last month, the \$7.95 Springfield Land Clearance Redevelopment Authority bond for the University Plaza Hotel, another Hammons project.  
CUSIP 85088PAA8

### DEFAULT SUMMARY BY YEAR

		2000/2004	2005/2009	2010/2014	2015	2016
TOTAL	#	595	504	367	57	29
DEFAULTS	\$(000)	9,915,430	20,856,355	22,277,824	74,828,981	736,940
SETTLED DEFAULTS	\$(000)	7,976,099	13,114,382	12,835,311	8,664,003	560
DISTRESSED ISSUES	#	34	125	231	22	18
	\$(000)	484,540	2,681,748	28,750,307	895,964	242,704

## BANKRUPTCIES/LIQUIDATIONS

### **BLACKWATER HSG FLA HSG REV SERIES 1995 A&B**

This \$11.2 million in three series of bonds was issued in 1995 and defaulted in 2000. Since then, little has happened to remedy the default and the total obligation on the bonds with unpaid interest has ballooned to \$ 16.3 million. Bondholders have finally organized sufficiently to authorize the trustee to accelerate the bonds and go to court to foreclose on the project. The developer has made a proposal to settle the bonds for \$7 million or about 43 cents on the dollar. This will likely be used by the trustee as a stalking horse bid for a public auction of the property. They estimate it will take 12 to 15 months to complete a foreclosure sale. Since the senior bond claim totals over \$12 million, there is little prospect for the junior bond issues. CUSIP 092597AB9

### **DOUGLAS CNTY NEB SANITARY & IMPROV DIST DISTRICT 452**

Nebraska sanitation and improvement districts have a history of defaults going back to the 1930s when they represented the first wave of defaults not unlike the Florida CDDs. Such defaults are numerous, but generally represent small dollar amounts and therefor involve only one or two bondholders, who as often as not, are a local bank. When the districts get in trouble they often resort to a local court or a Chapter 9 Bankruptcy. Since the amounts involved are so small, the cases often involve only one or two court appearances. This district 452 Chapter 9 bankruptcy was filed in the USBC for Nebraska and involved various small vendor claims and \$1.8 million in GO bonds. They needed to attract additional industry to the district in order to raise its tax base. The use of Chapter 9 bankruptcy allows it to negotiate a new series of bonds paying a mere 1% interest, thereby allowing sufficient revenues to run the district. The Bankruptcy order in this 6 year old case extends the maturity of the bonds and reduces interest to 1%. All this is notwithstanding the fact that bondholders is approved the plan. CUSIP 59287L73

### **HIAWATHA KANS HEALTH CARE FACs REV MAPLE HEIGHTS NURSING HOME**

This \$2.07 million nursing home bond was issued in 1999 with a 7.75% coupon. Bond proceeds were used to finance the Maple Heights Nursing and Rehabilitation Center in Hiawatha, KS. The bond initially defaulted in 2005 and has made sporadic interest payments in arrears since then.

Principal payments have been missed. These bonds have been facing financial difficulty since 2004 when Sentinel Trust Company, the original bond trustee, went into court receivership. Management personnel at Sentinel had embezzled huge quantities of funds under its trusteeship and made it impossible to pay interest to bondholders. However, after many years of shortfall in the operations of this facility, bondholders voted in April 2016 to accelerate the bonds and went into court to have a trustee and new manager appointed. This phase of the operation is now complete and bondholders now await the outcome before taking the next step, which would be a sale of the facility. CUSIP 428545AA5

### **PALM DRIVE HEALTH CARE DIST, CA PARCEL TAX REVENUE**

These \$9.8 million 5.25% parcel tax revenue bonds were issued in 2005 and spread across 17 different series. The bonds were issued to fund operation of the Palm Drive Hospital in Sebastopol, CA. On April 5, 2007, the hospital filed for Chapter 9 bankruptcy protection. The filing came as little surprise, as the hospital has operated in the red since reorganizing as a healthcare district in 2001. Although in bankruptcy, the bond continued to make interest payments. The trustee reports that a reorganization plan is expected to leave bondholders unimpaired and therefore bondholders were not allowed to have a vote. The confirmation hearing back then was to allow the district to issue COPs or certificates of participation post-bankruptcy to fund operations. This was done and the bonds then continued in bankruptcy for 9 years with very few updates to bondholders since they continued to get their interest payments. Well, it seems that father time is finally catching up with this method of doing business in that bonds are starting to come due and the funding is not there. Hence, the District is seeking a two year deferral of the due dates on the affected bonds and a reduction in the interest payment reserve to only one payment. A court hearing is scheduled for June 17, 2016 to force this through. This is clearly a case of a District refusing to face up to a financial situation they have not been able to fix. Someone needs to tell the judge that Chapter 9 doesn't mean you have 9 years to get it done; that privilege is reserved for Nebraska Sanitation Districts (See Douglas County NB story). CUSIP 693663PAV9

### **WASHINGTON CNTY AR PROP OWNERS IMP DIST #14 SADDLE BROOK VALLEY VIEW PJ**

This \$3.9 million in frastructure improvement bond was issued in 2007 with a 6.00% coupon to 128 lots were to be sold, but sales did not meet expectations. The developer turned the properties over to the district to satisfy \$1.3 million in assessments for the years 2011 to 2015.

On May 9, 2014 the district filed a Chapter 9 bankruptcy. On May 13, 2016 the disclosure statement and settlement plan were released, but for some reason were not forwarded to the MSRB until September 6, 2016. It provided for bondholders to receive either a 20 cents on the dollar settlement or to accept new bonds with a face value of 50 cents for each \$1 of old bonds. The plan further calls for the issuance of \$1.925 million in series D bonds to Saddlebrook Investments LLC, the party that will fund the purchase of up to \$1 million of bonds for those bondholders opting for the cash settlements and to compensate them for providing the cash needed to settle the other claims and market the unsold lots. The bonds will be redeemed through the sale of lots. The bonds will bear interest at .5% and mature in 35 years. Proceeds from lot sales will go toward a reserve fund for debt retirement. CUSIP 93754TAA7

### DEFAULT UPDATES

#### **AUSTIN-BERGSTROM LANDHOST ENTR TEXAS AIRPORT HOTEL**

This \$38.78 million hotel bond was issued in 1999 with a 6.75% coupon and maturity in 2027. The bond is structured so that interest payments can only be made from reserve funds if the majority of senior bondholders request it in writing. For a May 2016 interest payment the majority of bondholders voted for a \$1.8 million distribution, leaving \$1.2 million still in arrears. No distributions have been made to junior bondholders since 2006. CUSIP 052193AA7

#### **BELMONT CMTY DEV DIST HILLSBOROUGH CNTY**

This \$29.9 million Florida CDD bond was issued in 2006 with a 5.125% coupon. Bond proceeds were used for the development of 2,054 single family units in the district, which consists of 886 acres. The bond initially defaulted in 2008 when a draw on reserve funds of \$641,105 was necessary to make debt service payments. In 2009 Praeger Sealy & Co. advised that an assessment arrearage of \$748,506 existed on the property and that payments totaled only \$2,312. Reserve fund were used to pay subsequent payments until April 1, 2010 when no payment was made and the reserve fund was depleted. In May, 2016 the landowner, Belmont Real Estate, LLC made a prepayment on their assessment of \$6.375 million which was used by the trustee to redeem a like amount of outstanding bonds. This reduces the outstanding debt on the project to \$23.6 million. CUSIP 080228AA7

#### **BROADWAY-FAIRVIEW MO TRSN DEV WAL-MART SUPER STORE**

These \$6.325 million 6.125% sales tax revenue bonds were issued in July 2006. The proceeds of the bond sale financed the construction of retail facilities in the Broadway-Fairview Development District, in Columbia, MO. The most prominent of the retailers in the district is a Wal-Mart Superstore, which opened in October 2006. A special sales tax was passed in order to make the debt service payments on this issue, but tax revenues fell short beginning in May 2007 and less than a year later the bonds defaulted. By June 1, 2010, the interest payment was made and the reserve account fully funded. Since then there have been multiple additional draws on reserve funds. The latest was for \$36,640 to help pay the June 1, 2016 interest payment. The last draw left a balance of \$280,120 against a requirement of \$622,081. The level of draws for each bond payment has not changed since 2007 offering little prospect that the bonds will eventually recover. CUSIP 11144RAFI

#### **CHESTER CNTY PA HSG AUTH REVENUE AFFORDABLE HOUSING PROGRAM**

This \$4 million bond was issued in 1998 to acquire real estate and to construct 40 manufactured housing units for lease to persons of low income. The bond defaulted when the June 15, 2001 interest payment required a draw on reserve funds. The trustee has since reported periodic partial distributions of interest. The principal was to be retired from the proceeds of sales of the 40 homes. This has not happened since 1998, so there appears little hope it will happen. No explanations have been given for the problem and for any remedies in the future. The trustee continues to operate on the basis of sending out whatever monies are received and, we assume, is awaiting instructions from a majority of bondholders before taking any proactive measures. Here again, the small size of the issue is the main obstacle. CUSIP 16558PAC0

#### **GLADES CORRECTIONAL DEVELOPCORP GLADES CNTY FL DETENTION CENTER**

This \$33 million south Florida detention center bond has run into cash flow problems and could not make its March 2014 interest payment. The bondholders have waived their payment rights and asked the trustee not to accelerate the bonds. The trustee offered no explanation as to why the owners are having difficulty making payment, but we can understand that with a 7.375% coupon, the bondholders are in no hurry to extinguish them. On November 19, 2015, and at the direction of the majority holders, the trustee entered into a forbearance agreement under which the trustee may, at its discretion, advance funds to the issuer to cover operating deficits (both past and future) of the project, up to an aggregate amount of

\$700,000. So far, \$329,000 has been advanced to the facility and no interest payments are being made, including for September 1, 2016. CUSIP 376458AB1

#### **HARDIN MT INDL INFRASTRUCTURE DEV REV ROCKY MOUNTAIN POWER PROJ**

This \$20.9 million bond issue financed facilities for Rocky Mountain Power in 2006. The City of Hardin has notified the trustee that the company has failed to make its September 2016 property tax payment, which is the source of the debt service. There was no clarification as to why payment was held up or what remedies the city is pursuing. This has been an ongoing problem since March 2015 and has forced the trustee to draw on the debt reserve for funding interest payments. The reserves are now depleted and the trustee advises that the September 1, 2016 interest payment of \$653,750 and the principal payment of \$700,000 were not made. CUSIP 412236AA9

#### **NEWPORT CMNTY DEV AUTH SPEC ASSMT PORTSMOUTH VENTURE ONE**

This \$16.2 million special assessment district bond defaulted in September 2008 when the developer fell behind in making special assessment payments. The March 1, 2010 debt service payment required a draw on reserve funds of \$385,541. The city was able to collect current assessments together with penalties and interest sufficient to make the September 1, 2011 debt service payment and to replenish reserve funds. For a time the bond was no longer in default. On January 31, 2012, the board approved a special assessment levy of \$1,017,000 for the 2012 tax year. However, only \$147,473 of the special assessments was collected, representing a collection rate of only 14.5%. Intermittent reserve fund draws occurred over the next four years. The March 1, 2015 debt service payment was deferred at the direction of bondholders. No report on the aggregate amount of the arrearage was made although it appears to be substantial. CUSIP 648121AA9

#### **PIMA CNTY ARIZ INDL DEV AUTH ED REV PREMIER & AIR ACAD CHARTER SCHOOL**

This \$10.89 million bond was issued in September 2005 to fund two charter schools, Premier Charter High School and the Air Academy Charter High School. The obligors are jointly and severally obligated for debt service. The bond initially defaulted in September 2008 when a draw on reserve funds was required.

The March 2009 interest payment exhausted reserve funds and the bonds have not made debt service since. The Air Academy Charter High School is not operating as such and instead is leasing its space to another charter school. A settlement was reached in a Minnesota District Court whereby the bonds would be cancelled and exchanged for new bonds in two series. The A series would be for 38.5 cents on the dollar of old bonds and bear interest at 7% , the same as the previous bonds. Bondholders would also receive 20 cents worth of series B bonds bearing interest at 2.07% and contingent on the issuer having sufficient income. Bondholders would also receive 12 cents on the dollar worth of series C bonds which bear interest at 2.07% after all interest and mandatory sinking fund provisions on the A and B bonds have been met, i.e. they are wallpaper. While this package give 78.5 cents of new bond principal, a more conservative valuation would argue that this represents more like a 40 cents on the dollar settlement with a principal recovery decades hence. CUSIP 72177MGD3

#### **SAUK TRAIL ACADEMY MICH CERTIFICATES OF PARTICIPATION**

This \$2.5 million education bond was issued in June 2001. Sauk Trail Academy began in September 1996, having been granted its charter by the Hillsdale Intermediate School District. Sauk Trail provides a K-8 program for approximately 100 students and includes a day care center with a pre-school program. The obligor notified the trustee that deficient payments were caused by insufficient student enrollment. Enrollment has been improving, but is still below levels needed to service the current debt. The school has been operating under a forbearance agreement, which has been renegotiated and renewed several times. The last forbearance agreement expired on June 30, 2013. No additional agreements have been negotiated. In January 2016 the school offered a proposed payment of \$525,000 to settle the bond issue principal and interest. Along with \$490,000 in funds on hand, this would have represented a recovery of 41 cents on the dollar. Bondholders were asked to vote on the proposal, but only 30% voted in favor. The Academy then offered to up their payment to \$550,000 and this proposal is now being put before bondholders for a new vote. The vote is scheduled to close August 31, 2016. Bondholders are relying on an appraisal commissioned by the trustee which shows the facility to be worth \$1.05 million so it is likely this vote will also be in the negative. CUSIP 804373AD

#### **TEHACHAPI, CALIF. IMPT. BD. ACT 1915 EAST TEHACHAPI BLVD. NO.89-3**

This small \$1.75 million development district has been in default since 1994. To bring bondholders up

to date since its last update in 2013, the district advises that \$790,000 of bonds have come due and not been paid. But not to worry, interest payments will continue to be made and someday enough inflation will have occurred so that tax assessments finally reach the required service levels. These are, of course, not the words of the District, but they reflect the philosophy of the city of Tehachapi whose letter head reads "Build Up. Play Up. Work Up. Explore Up. Live Up." Nowhere in this do you see the words "Pay Up" so don't hold out any hopes of payback in this lifetime. CUSIP 879019BX4 (Matured 9/2/09 and still outstanding)

#### **WEST VA ECON DEV AUTH REV STONEWALL JACKSON**

This \$42 million commercial development bond was issued in 2000 with an 8.00% coupon. Bond proceeds were used to build the Stonewall Jackson Lake State Park Resort in Roanoke, W. Virginia. The bond began defaulting on principle payments in 2005 and starting in October 2007, only partial interest payments were being made. A bondholders committee was formed in 2006 and has been providing guidance to the trustees. On November 10, 2015 the trustee reported that on November 17, 2015, a partial payment of the interest due would be made in the amount of \$300,000. The most recent notice from the trustee advises that a bondholder committee meeting will be held on August 9, 2016 for bondholders only to consider the latest amendment to the bond indenture. A reading of that amendment indicates that the bondholder committee has become heavily involved in the day to day management of the resort and shows little signs of making headway. CUSIP 95648RAE8

#### **YAVAPAI CNTY, AZ IDA CONVENTION CENTER**

This \$35 million bond was issued in 2005 with a 7.375% coupon and maturity in 2031. The bond proceeds were used to construct a 5,000-seat convention and events center in Prescott Valley, Arizona. The bond defaulted when the October 2007 interest payment required a draw on reserves of \$1.17 million. In addition to the payment default, the developer failed to provide financial statements and a compliance certificate to assure adequate insurance. Subsequent interest payments were made, but the reserve fund was never replenished. Following years of delay and litigation, the town of Prescott Valley paid over to the trustee \$915,351 in tax revenues due to the district. As a result the first dividend since 2007 was paid by the trustee, but representing less than one year's normal dividend. CUSIP 985215CA

### **SETTLEMENTS**

#### **BOSTON MASS IND DEV FIN AUTH CROSSTOWN CENTER PROJ**

This \$7.75 million revenue bond was issued in 2002 with an 8% coupon. Bond proceeds were used to

finance a 175-room hotel, parking garage and retail space. The obligor reported the September 1, 2009 interest payment required a draw on reserve funds. Additional draws on reserve funds occurred through May of 2011 when a forbearance agreement was made. The terms called for the payment of interest, but not principal. The project continued to struggle financially from 2009 on, missing interest payments on the series B bonds and principal payments on both A and B series bonds. In March, 2016 they were finally able to refinance the bonds with a new issue and pay all principal and interest on this bond issue which was redeemed. CUSIP 10088MAV7

#### **CHINO CALIF CMNTY FACS DISTRICT DIST NO 1**

This \$9.5 million community development bond issued in 2007 began invading its debt service reserve in September 2008 due to assessment collection shortfalls. A payment shortfall was avoided during the subsequent years and now, the district announced in July 2016 that the entire issue has been defeased. CUSIP 169511JM5

#### **ELK GROVE, CALIF LAGUNA RIDGE**

This \$67.6 million housing development reported in 2008 that it had 44.6% of its assessments in arrears mainly due to the developer not making his payments on unsold properties. The District first disclosed an unscheduled draw on the debt reserves had to be made to pay the March 1, 2008 interest payment. It has since managed to keep up interest rate payments from reserves until this July when it announced it was calling the entire bond issue at 101, no doubt through a new bond issuance at rates lower than the current 5% to 5.25%. CUSIP 287272DF2

#### **MARICOPA CNTY, AZ IND DEV AUTH OMEGA ACADEMY**

This \$28.965 million 6.75% bond issued in 2000 to finance the Omega Academy Charter School in Phoenix. The debtor first defaulted in July 2005 by incurring two separate liens on the property, in violation of the indenture agreement. Both liens involve unpaid debts to a construction company, one originated in 2003 and the other in 2002. However, on June 15, 2007 bondholder headaches multiplied as the debtor filed for Chapter 11 bankruptcy protection. Since the debtor was unable to come up with a reorganization plan, the exclusivity period expired and the construction company which is still owed from 2002 filed a liquidation plan with the bankruptcy court. Since 2007, Maricopa County has been slowly liquidating the bonds using funds from a bond pool. It has taken eleven years, but the trustee was finally able to announce in May 2016 that the final \$3.7 million in bonds would be redeemed at par thereby ending the default. CUSIP: 56681NAB3

**LANCASTER CNTY SC ASSMET REV EDENMOOR IMPT DIST SER 2006 A**

This \$35.6 million bond was issued in 2006 with a 5.75% coupon. Bond proceeds were used to finance the design, construction and/or acquisition of certain infrastructure improvements, park and greenway facilities and a combined Sheriff and EMS substation in the Edenmoor Improvement District in Lancaster County, South Carolina. The bond initially defaulted when the issuer failed to make payments on a bank loan. The loan amount was \$23.456 million and \$17.2 million is still outstanding. The loan was to be repaid by May 4, 2008. Subsequent to the missed payment the December 1, 2009 debt service required a draw on reserve funds. Since that time, the county has pursued a program of accelerated retirements of the bonds. The latest is, a \$7.96 million redemption of the bonds scheduled to mature in 2037. The remaining outstanding bonds have been brought current. CUSIP 514088AE3

**ST PAUL, MN PARKING RAMP REV FOURTH & MINNESOTA PARKING RAMP**

This \$21million in bonds has been in default since 2002 with missed interest and principal payments. Senior bondholders, representing \$17.2 million of the outstanding principal are being asked whether they would accept a purchase offer of \$11.25 million for the parking facility. Their vote is due by September 6. Junior creditors would receive no sales proceeds and effectively wiped out. The potential recovery for senior bondholders would be 65 cents on the dollar. CUSIP 793044AC

**WESTERN HILLS CA WTR DIST DIABLO GRANDE CMTY FACS NO. 1**

Four bond issues between 2001 and 2005 for \$57 million were used to develop the infrastructure for a 5,000 acre housing development in Stanislaus County California which is on the western edge of California's Central Valley. The developer, Diablo Grande LP filed Chapter 11 bankruptcy in 2008 when property tax assessments totaling \$1.56 million were in arrears. We commented back then that this promised to be another one of those decade long workout situations where interest payments trickle out as properties are foreclosed and resold. This prediction proved too pessimistic as it only took eight years for the district to raise sufficient funds to retire the last of the outstanding bonds. In July, the trustee announced the retirement of the final \$7 million of outstanding bonds at par plus accrued interest. CUSIP 95832CN3

**FLORIDA CDD UPDATE**

While some 100 Florida CDD projects went into default in 2007-8, most have still to show resolution of their woes after almost a decade. The fear has been that arrearage on property taxes on unsold lots would result in counties seizing the properties and thereby the collateral behind the bonds, making them worthless.

This situation seems to have found a solution by at least two districts, who were able to foreclose on the unsold lots and find a developer who purchased them for amounts which allowed significant recoveries for bondholders. Below are the two issues which have been retired by this means:

K-BAR RANCH CDD – CUSIP 482425AA3 – Settled \$4.6 million of outstanding bonds at par value.

LAKESIDE LANDING CDD – CUSIP 512168AB1 – Settled \$9.8 million of outstanding bonds for 30 cents on the dollar.

Accrued, but unpaid interest was not recovered in either case.

**LARGEST DISTRESSED ISSUES**

Issuer	Project	\$ Amount (Millions)
Golden State Tobacco	Tobacco Settlnmt	11,398
Buckeye OH Tobacco	Tobacco Settlnmt	5,531
Tobacco Settlement	New Jersey	3,622
Tobacco Settlement	Virginai	1,149
Rhode Island Tobacco		800

**LARGEST UNSETTLED DEFAULTS**

Issuer	Project	\$ Amount (Millions)
Puerto Rico	Var Gov	63,500
Puerto Rico	PREPA	8,500
Mashantucket Wstrn	Pequot Tribe CT	2,200
Texas Competitive	Elec Hldgs Co (TXU)	1,165
Atlantic City	New Jersey Govt	344
Nassau Cnty Ny Ida	Cont Care Retir Fac	296
Lombard IL	Public Facs Corp	246

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